COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A REVIEW OF THE RATES AND CHARGES AND INCENTIVE REGULATION PLAN OF SOUTH CENTRAL BELL TELEPHONE COMPANY	))))	CASE NO. 90-256 PHASE II

O R D E R

On January 23, 1992, the Commission entered related decisions in this case and Administrative Case No. 323, Phase I.[1] On February 12, 1992, AT&T Communications of the South Central States, Inc. ("AT&T") filed a petition for reconsideration or rehearing. On February 21, 1992, South Central Bell Telephone Company ("South Central Bell") filed a response to AT&T's petition. On February 26, 1992, AT&T filed a reply to South Central Bell's response.

Two decisions in Administrative Case No. 323, Phase I, were entered on January 23, 1992. In one of the decisions, the Commission ruled on pending access services tariff filings necessary to the implementation of intraLATA competition and a revised settlement agreement governing toll and access services transactions between local exchange carriers. As part of that

---

1 Administrative Case No. 323, Phase I, An Inquiry Into IntraLATA Toll Competition, An Appropriate Compensation Scheme for Completion of IntraLATA Calls by Interexchange Carriers, and WATS Jurisdictionality. LATA is an acronym for Local Access and Transport Area. WATS is an acronym for Wide Area Telecommunications Service.

decision, the Commission described a shift in non-traffic sensitive revenue requirement from South Central Bell to other interexchange carriers.[2] The shift was a consequence of the mechanics of the Joint Motion[3] adopted in an earlier decision.[4] The result was a $9,817,00 decrease to South Central Bell's access-related expenses and an equal increase to the access-related expenses of other interexchange carriers. The savings to South Central Bell were applied to rate reductions in this case.

In its petition, AT&T seeks reconsideration on the impact of the shift in non-traffic sensitive revenue requirement from South Central Bell to other interexchange carriers, and the allocation of revenue reductions between intraLATA toll and interLATA access charges. In essence, AT&T moves the Commission to adopt a "make-whole" adjustment through a reallocation of funds available for rate reductions. In its reply to South Central Bell, AT&T shows various rate comparisons and argues that the differences are unfair.

AT&T first argues that the Commission should adjust revenue reduction targets: i.e., the target for intraLATA toll rates

---

2 Id., pages 27-30.

3 Joint Motion of a Coalition of Local Exchange Companies and Interexchange Carriers, filed on March 10, 1989 and supplemented on July 2, 1990.

4 Administrative Case No. 323, Phase I, Order dated May 6, 1991.

should be reduced from $45,434,000 to $35,617,000[5] and the target for interLATA access charges should be increased from $21,055,000 to $30,872,000.[6] According to AT&T, this is consistent with the Joint Motion and would properly recognize the impact of the shift in non-traffic sensitive revenue requirement. AT&T also argues that the Commission's method for allocating funds available for rate reductions through the future operation of the incentive regulation plan will allow South Central Bell a revenue windfall. In the alternative, AT&T argues that funds available for rate reductions in the Commission's decision and through the future operation of the incentive regulation plan should be allocated between South Central Bell and other interexchange carriers based on relative terminating switched access minutes of use.

In its response, South Central Bell counters that AT&T's petition should be denied, but does not object to granting it for the limited purpose of changing the ratio applicable to future rate reductions under the incentive regulation plan. South Central Bell first argues that the shift in non-traffic sensitive revenue requirement was properly recognized in the Commission's decision. The Joint Motion does not require a make-whole adjustment to the revenue reduction targets and, in fact, contains no rate reduction methodology. Moreover, since AT&T was a principle architect of the Joint Motion, AT&T should have been

---

5 $45,434,000 - $9,817,000 = $35,617,000.

6 $21,055,000 + $9,817,000 = $30,872,000.

aware of the shift in non-traffic sensitive revenue requirement that would result from its implementation. South Central Bell also argues that there is no revenue windfall contained in the Commission's decision. Nonetheless, regarding future rate reductions under the incentive regulation plan, South Central Bell "does not object to the use of any ratio between .27:1 and .14:1 so long as effective parity with the interstate carrier common line charge is understood to be the goal, and with the understanding that movement below that goal is not favored."[7]

The Commission's decision gave full consideration to the mechanics of the Joint Motion and the cost of access to South Central Bell and other interexchange carriers. It reflected all funds available for rate reductions at the time and provided for future rate reductions under the incentive regulation plan. Moreover, the approach to rate reductions ordered by the Commission does not result in any windfall to South Central Bell. We believe this allegation is based on a misreading of the decision. Appendix C provides for future reductions to intraLATA toll rates of $2,860,000 and interLATA access charges of $10,663,000. AT&T assumes that the latter amount will be split between South Central Bell and other interexchange carriers based on relative terminating switched access minutes of use. This is not the case. The intent of Appendix C and the related discussion in the text of the Order provides that rate reductions will be

---

7 Response of South Central Bell Telephone Company to AT&T's Petition for Reconsideration or Rehearing, pages 8-9.

accomplished at a ratio of .27:1 as funds become available at each point-of-test under the incentive regulation plan. Non-traffic sensitive revenue requirement will be reduced by the sum of the two amounts, or $13,523,000.

The Joint Motion addresses matters relevant to revenue requirements and toll competition. It does not include any stipulation concerning rate reductions. It does not require and no other evidence suggested a make-whole adjustment to insulate carriers from the impact of the shift in non-traffic sensitive revenue requirement. In fact, the Joint Motion implicitly assumes that non-traffic sensitive revenue requirement will increase at the point of implementation. Nonetheless, the Commission's decision includes immediate reductions in non-traffic sensitive revenue requirement that neutralize the impact of the shift in non-traffic sensitive revenue requirement, as well as providing for substantial future reductions. This notwithstanding, there is some basis to AT&T's claim that the target for reductions to interLATA access charges should be increased: i.e., the effective target in terms of cost savings that can be passed on to consumers through lower rates will not be achieved without some adjustment.

South Central Bell offers a reasonable compromise, even though it is not altogether consistent with the logic of the Joint Motion or our original decision. Absent some future readjustment, inherently, the compromise will result in an unequal cost of access to South Central Bell vis-a-vis other interexchange carriers and a pricing advantage to other interexchange carriers.

Having considered the evidence and being sufficiently advised, the Commission will amend Appendix C, Item 1 to our original decision as follows:

Non-traffic sensitive revenue requirement shall be reduced $23,340,000[8] as funds become available at each point-of-test at a ratio of .14:1[9] applicable to intraLATA toll rates and interLATA access charges, but not to exceed the total amount necessary to achieve parity with interstate carrier common line charges and subject to such adjustments as are necessary to obtain equal charges applicable to all market participants.

Subject to the specified conditions, this change will allow maximum additional intraLATA toll rate reductions of $2,860,000 and maximum additional interLATA access charges reductions of $20,480,000.[10]

IT IS THEREFORE ORDERED that Appendix C, Item 1 of the Commission's decision of January 23, 1992, is hereby amended to read as set out in the Appendix attached hereto. In all other respects, the January 23, 1992 Order is affirmed.

---

8 $13,523,000 + $9,817,000 = $23,340,000.

9 $2,860,000 / $20,480,000 = .1397.

10 $10,663,000 + $9,817,000 = $20,480,000.

Done at Frankfort, Kentucky, this 28th day of February, 1992.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-256, Phase II, DATED 2/28/92

The following schedule of rate reduction priorities is prescribed for the customers in the area served by South Central Bell Telephone Company and other common carriers concurring in any affected tariff. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Rate Reduction Priorities

1. Non-traffic sensitive revenue requirement shall be reduced $23,340,000 as funds become available at each point-of-test at a ratio of .14:1 applicable to intraLATA toll rates and interLATA access charges, but not to exceed the total amount necessary to achieve parity with interstate carrier common line charges and subject to such adjustments as are necessary to obtain equal charges applicable to all market participants.